

## ADVANTAGES AND DISADVANTAGES OF USED CARS

Nearly two out of every three cars sold are used cars. Many consumers, especially teenagers, cannot afford to buy a new car when the average price is approximately \$18,000. The cost of insurance is much higher for a new car, increasing the demand for used cars. The supply of used cars has increased due to the number of two and three-year-old lease cars available.

There are real advantages to buying a used car. The buyer of a used car avoids some of the depreciation costs, which can be up to 40% of its value in the first two years. Sometimes, buyers can afford more options and luxury items when they purchase a used car. Many consumers feel that they can arrange a better deal with less hassle if they buy directly from the owner of the car.

Buying a used car can have disadvantages as well. One important disadvantage is that often the most maintenance-free time of the cars life is during the first two years. Some used cars have serious hidden defects with limited or no warranty coverage. It is sometimes difficult to determine whether the car was maintained properly by its previous owner. The used car may not have all the desirable safety or technical features of a new car. The selection of models, equipment, and colors may be limited.

## WHERE TO BUY A USED CAR

Buying a used car is an important financial decision. Generally, the price of a used car is determined by who is selling it. So, it is smart to gather information before you buy, such as knowing what you can afford, then carefully exploring financial arrangements as you negotiate the best deal.

Dealerships account for approximately 50% of the used cars sold annually. Dealers usually have a good supply of late model used cars, so they offer a selection in top condition. These vehicles often carry the balance of the manufacturers warranty and some dealers offer their own warranties. In addition, dealers have service capacities, provide financing services and take care of vehicle registration and license forms.

The Federal Trade Commission's Used Car Rule requires dealers to display prominently and conspicuously a warranty notice called a Buyer's Guide sticker on all used cars (but not trucks). The Buyer's Guide must state whether the vehicle has a warranty or is being sold "as is."

Used Car Superstores are a recent development. They usually have a large stock of cars and buyers have access to computer-assisted selection. Two and three-year-old models predominate and car prices are fixed and not negotiable. To begin the selection process, you use a computer terminal to bring up vehicles by make, model, and price. The computer will print a picture of any car and list its equipment, price, and lot location. The vehicles carry seller warranties which vary in quality from generous to average and many

carry the balance of the manufacturer's original warranty. Drawbacks of Superstores are that the salespeople may be relatively uninformed. They cannot provide information about previous car owners and the prices are generally higher.

Independent Lots offer a variety of cars, from excellent and expensive to well-worn clunkers. Usually, car lots have no service facilities, but they may work with a local garage. If they offer warranties, the local mechanic will perform warranty repairs. In order to learn the reputation of a used car lot or dealership, buyers can phone local consumer protection offices or the Better Business Bureau to inquire about complaints against the business. Independent lots often offer financing and there can be strong pressure to finance the car through them. Their finance rates are usually higher than at banks or credit unions.

Rental Agencies offer rental cars for sale to the public after a year or two of use. These late model cars often carry the balance of the manufacturers warranty and service records are generally available. To buy from a rental agency, buyers have to arrange their own financing and no trade-ins are accepted.

Private Sales are often good buys, but be cautious when buying from an individual. When possible, buyers should deal with a seller they know and trust. Sellers are often people who have not been able to get the price they want for their car as a trade-in. There is little pressure to buy and repair records may be available. However, these used vehicles are sold "as is" with no warranty. Late model cars may still have a manufacturers warranty that you can purchase for a transfer fee. The sale may be risky because stolen cars with phony titles can be sold and so can cars about to be repossessed. Also, there can be concealed damage or major repair problems.

## BEFORE YOU NEGOTIATE

Visit the dealership, superstore, car lot or other source. When buying from a private individual, adapt the following steps to that type of sale. Take a notepad and calculator. Be prepared to spend time. Meet the salesperson or seller and write down his or her name. Look for the models you are most interested in. If asked how much you would like to spend, say, "it depends on the car." Do not be afraid to say that you are looking for cars at other places.

Find one or two models and inspect them. On your notepad, identify the car, the year, the price, options, trim line, mileage, and vehicle identification number (VIN). Request the name and phone number of the previous owner from the title. Ask to see the title, then match the VIN with that on the car and note the name and phone number of the previous owner.

Test drive one or two vehicles. If you are interested in a particular car, ask the salesperson if you can take the car to your mechanic for an evaluation. Also, examine the cars warranty. Check the performance, safety and service records for the car. You can obtain price information from the Consumer Reports Used Car Price Service for \$1.75 per minute, phone 1-900-446-0500. On the

internet, you can obtain price information from Edmund's New and Used Car Prices and Reviews, at <http://www.edmund.com> and from the Kelley Blue Book <http://www.kbb.com>. Also the NADA Official Used Car Guide gives information about the prices of used cars.

These resources are available at your local public library. You can check if a used car has had a safety recall by calling the National Highway Traffic Safety Administration's Auto Safety Hotline at (800) 424-9393 or on the Internet at <http://www.dot.gov/affairs/nhtsain.htm>.

Leave the premises. At home, phone the previous owner. Ask for the mileage reading at the time of trade-in. It should be consistent with the present reading. Contact your financing sources, request price information about specific cars and confirm loan availability. Also, get an estimate of your insurance costs from at least two insurance sellers.

Review your information and estimate the wholesale and retail price for the car you wish to purchase, based on the following information:

- ◆ price information from a current used-car price guide or from financing sources
- ◆ the cars condition, checked by you
- ◆ prices of similar vehicles, from advertisements
- ◆ reasonable seller markup to cover overhead and profit

Return to the seller and make arrangements to take the car to your mechanic. You may be asked to leave your car at the lot as security. Once you receive the mechanic's dollar estimate of needed repairs, either subtract that amount from your maximum offer or use it as a negotiating tool.

## THE NEGOTIATING PROCESS

Negotiation is the process of discussing the price and terms of a used car, eventually arriving at an agreement between the buyer and seller. Any well-informed buyer can negotiate a fair deal using the following steps.

Make an offer. It should be 15% to 20% below the maximum amount you would pay so that there is room to bargain. You may be asked about a trade-in or be urged to sign up for dealer financing. To both questions, say you are undecided. Your goal at this point is to get agreement on the car price.

Your first offer will likely be rejected. Your second offer should not split the difference between your first offer and the seller's counter offer. It should split the difference between your first offer and the maximum amount you will spend. You can use the cost estimates of repairs supplied by your mechanic to help negotiations.

Making an offer at a used car Superstore with no-haggle prices requires a different strategy. If you cannot negotiate on price,

consider other aspects of the sale, such as more attractive financing, a higher trade-in price, or a longer/more inclusive warranty.

If you reach a price standoff, change the situation by taking another look at the car. Using the Buyers Inspection Checklist, you may notice problems you overlooked previously. At this point, do not agree to a deposit since you have no contract, only your offer. A deposit may give the seller the leisure to negotiate a higher price.

Some buyers feel at ease making several offers and counter-offers, simultaneously negotiating for better warranty coverage or additional equipment. They may give up \$50 to \$100, but they expect something in return. If that is the case, be sure to write down any promises made by the salesperson.

Your last offer should be close to the maximum amount you would pay for the car. Be ready to justify your offer as reasonable and fair by showing how you arrived at it. Make it clear that this offer is final. If the dealership rejects it, be prepared to walk away. The salesperson may catch you in the parking lot or phone you the next day.

If the salesperson accepts an early offer but then says that the sales manager will not approve the deal, it is likely that you are being low-balled. That is, a low offer is initially accepted by the salesperson who knows it will be rejected so that a higher price can be reached in further negotiations. If that happens, leave, because low-balling is a form of dishonesty.

If the seller accepts your offer, you have a deal. The salesperson will then prepare a Buyers Order or Purchase Agreement to be signed by you. Insist on a readable document, not a first draft. A preprinted form or computer-generated form may automatically charge you for things you have already refused, so examine the contract before you sign.

- ◆ Check the purchase agreement for arithmetic errors, mistaken prices, extra charges, omissions, and blank spaces.

- ◆ Be sure that the information on the purchase agreement is consistent with the information in your notes.

- ◆ Get all verbal promises in writing.

There is no three-day cooling off period for auto contracts so do not sign any automobile contract without understanding it. Your signature is legally binding.

### SUMMARY OF TIPS

- ◆ Check out the car's repair record, maintenance costs, and safety and mileage ratings in consumer magazines or online.
- ◆ Look up the "blue book" value and be prepared to negotiate the price.

- ▼ Buying from a dealer? Look for the Buyers Guide. It's required by a federal regulation called the Used Car Rule.
- ◆ Make sure all oral promises are written into the Buyers Guide.
- ◆ You have the right to see a copy of the dealer's warranty before you buy.
- ◆ Warranties are included in the price of the product; service contracts cost extra and are sold separately.
- ◆ Ask for the car's maintenance record from the owner, dealer, or repair shop.
- ◆ Test drive the car on hills, highways, and in stop-and-go traffic.
- ◆ Have the car inspected by a mechanic you hire.
- ◆ Check out the dealer with local consumer protection officials.
- ◆ If you buy a car "as is," you'll have to pay for anything that goes wrong after the sale.

### The Used Car Rule generally doesn't apply to private sales.

If you decide to buy a used vehicle, take time to comparison shop for both the car and its financing plan. Because you do not always know how the used car was driven or maintained, be especially concerned with its condition. Deciding where to buy and where to finance the car is a challenge. See How To Finance A Used Car, for information on the sources for financing used cars.

Buyers should not pay the asking price for a used car unless they are dealing with a Superstore. Sellers of used cars have set a price that allows room for bargaining. However, buyers do not always think about having all verbal promises and guarantees in writing. Unless promises are in writing and signed by the seller, they are legally unenforceable. So if the seller will not put everything in writing, your best option is to shop for a better deal elsewhere.

### WHERE TO GET MORE CONSUMER CREDIT INFORMATION:

Call our toll-free number or write to the address on the cover for a copy of any of our brochures or for further consumer credit information.



# HOW TO BUY A USED CAR



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